

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, March 17, 2006
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chair of the ASRS Board, called the meeting to order at 8:33 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Keith Meredith, Chair
Mr. Karl Polen, Vice Chair
Mr. David Byers
Mr. Jaime Gutierrez
Mr. Chris Harris
Ms. Anne Mariucci
Mr. Michael Townsend
Mr. Steven Zeman (via teleconference)

Absent: Mr. Lawrence Trachtenberg

A quorum was present for the purpose of conducting business.

2. Approval of the Consent Agenda

Motion: Mr. Dave Byers moved to approve Refunds, Death Benefits and Retirements;

And

Approve the System Transfers;

And

Approve the minutes of the February 17, 2006, Regular Session and Special Session of the ASRS Board;

And

Approve the Applications and Agreements with the Following Employer;

- La Paz County

Mr. Karl Polen seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding Notice of Proposed Rulemaking for Article 7, Contributions Not Withheld

Dr. Keith Meredith, Chairperson, stated that agenda item three would be pulled from the agenda.

4. Presentation, Discussion and Appropriate Action Regarding 2006 ASRS Legislation

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Shirley Gunther, Government Relations Officer, presented the current status of ASRS legislative initiatives. The Board was updated regarding HB 2082, HB 2101, HB 2103, HB 2105, HB 2136, HB 2335, HB 2340, SB 1167, SB1168, and SB 1169.

Dr. Robert Letson addressed the Board and stated he was waiting to hear from Mr. Klein regarding HB 1167 – ASRS; Optional Forms of Retirement. Mr. Klein explained that Dr. Letson's concerns have been noted and he is being kept informed as the bill progresses.

5. Presentation, Discussion and Appropriate Action Regarding the Possible Termination of the ASRS Real Estate Consultant and the Possible Hiring of a New ASRS Real Estate Consultant

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding the possible replacement of the ASRS Real Estate Consultant. Mr. Dokes gave some background information about the current ASRS Real Estate Consultant. The Board approved the hiring of Courtland Partners in December 2003, as ASRS Real Estate Consultant. The primary responsibility of the Real Estate Consultant is to work with staff and the Real Estate Committee to develop and effectively implement the ASRS Real Estate Plan. In addition, given the ASRS strategic allocation to real estate, the Real Estate Consultant is expected to provide meaningful strategic and tactical Plan implementation direction and perspective, as well as be a valuable resource to the CIO and Real Estate Committee regarding real estate program matters. Such responsibilities are designed to supplement those of the ASRS real estate staff and considered an important component to the success of the ASRS real estate program.

Though the ASRS Real Estate Plan was approved by the Board in July 2004, and achieved some expectations, in aggregate, the ASRS real estate program has yielded unsatisfactory results. The implementation of the real estate program in 2005 occurred at a significantly slower-than-anticipated pace primarily due to sub-optimal implementation and program structure issues such as tactical core

and non-core real estate market decisions, the availability of targeted real estate managers within these markets, and contract review.

Mr. Dokes explained that over the past few months the Real Estate Committee has had numerous discussions regarding the potential redesign of the ASRS real estate program. As a result, the CIO, with the concurrence of the Director, initiated the following activities; reorganization of the Investment Management Division (IMD) real estate functions and personnel and a search for a replacement real estate consultant. Such activities are consistent with Board approved ASRS 2006 Strategic Initiatives and necessary to significantly improve the ASRS real estate program. From an initial correspondence with six firms, the search for a replacement real estate consultant yielded three formal responses; two of which were interviewed and, finally, one was selected.

The recommendation to hire the Townsend Group is based on their strong organization participation in the institutional real estate markets and a commitment to provide the ASRS with the required contracted services.

Motion: Mr. Jaime Gutierrez moved to replace the current ASRS Real Estate Consultant with the Townsend Group.

Mr. Karl Polen asked if the termination would be effective immediately, Mr. Dokes explained that the termination would go into effect at the end of the month.

Mr. Karl Polen seconded the motion.

By a vote of 7 in favor, 0 opposed, 1 abstention, and 1 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Final Draft of the Defined Benefit Plan Design Review

Mr. Paul Matson, Director, explained to the Board that the final draft of the Defined Benefit Plan Design Review includes two minor changes; language has been added to make clear that the recommendations in the report are for consideration only and to clarify the purpose of the report. Mr. Matson explained that he intends to accept this final version in one week should there be no further changes desired by the Board members.

7. Director's Report

Over the next calendar year various charts in the Director's Report will be reviewed and updated in order to comply with the Strategic Plan. Mr. Matson will notify the Trustees of substantive changes as they occur.

8. Possible Presentation Regarding Board Committee Updates

There were no Board Committee updates.

9. Board Requests for Agenda Items

There were no requests for agenda items.

10. Call to the Public

No members of the public requested to speak.

11. Presentation, Discussion and Appropriate Action with Respect to the 2005 Review of the Director of the ASRS

Motion: Mr. Michael Townsend moved that the Trustees convene to executive session to consider the performance of the Director, which would not be open to the public.

Mr. Anne Mariucci seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Trustees adjourned to Executive Session at 8:55 a.m.

The Trustees reconvened to the public meeting at 10:13 a.m.

Motion: Ms. Anne Mariucci moved that the Board accept it's determination of Director Matson's performance appraisal and proposed salary increase to \$170,000 annually.

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

12. The next ASRS Board meeting is scheduled for Friday, April 17, 2006, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Dr. Meredith adjourned the March 17, 2006 Board meeting at 10:17 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Schrode, Secretary

Date

Paul Matson, Director

Date